

**BEFORE THE CALIFORNIA ENERGY COMMISSION  
OF THE STATE OF CALIFORNIA**

**DOCKET**

**11-IEP-1A**

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In the Matter of:

Preparation of the 2011 Integrated Energy  
Policy Report

Docket No. 11-IEP-1A

COMMITTEE WORKSHOP  
RE: California Clean Energy Future

**COMMENTS OF THE COGENERATION ASSOCIATION OF CALIFORNIA  
AND THE ENERGY PRODUCERS AND USERS COALITION ON  
THE CALIFORNIA CLEAN ENERGY FUTURE OVERVIEW**

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July 20, 2011

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Governor Brown's goal to develop 6,500 MW of new combined heat and power (CHP) resources over the next twenty years is appropriate and attainable, and should be included in the *California's Clean Energy Future Overview*. The goal is supported by the CHP-specific measure in the California Air Resources Board's (CARB's) Scoping Plan, which contemplates the addition of enough CHP resources to reduce greenhouse gas emissions by 6.7 million metric tons (MMT) annually.<sup>1</sup>

The goal is further supported by the California QF/CHP Program recently adopted by the California Public Utilities Commission (CPUC) in Decision (D.)10-12-035. The program sets a target of 3,000 MW of new contracts by 2020, which may be dominated by re-contracting of existing resources, as well as an incremental target of 4.8 MMT of GHG reductions from new CHP projects. If the program is implemented properly and the incremental GHG target is retained, the program could provide a structure through which to meet part of Governor Brown's goals in the investor-owned utility service territories.

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<sup>1</sup> CARB Scoping Plan at 44.

The California Energy Commission (CEC) can boost the possibility that this goal will be met by endorsing the goal in *California's Clean Energy Future Overview*, with a renewed recommendation to eliminate the investment-choking nonbypassable charge for customer-generator departing load (CGDL).

## **I. CALIFORNIA STATUTES AND AGENCIES RECOGNIZE CHP'S VALUE**

California statutes and agencies support the development of efficient and environmentally friendly CHP.<sup>2</sup> The CEC's Integrated Energy Policy Reports (IEPRs) have consistently supported CHP since the first report in 2003, which states that CHP's "[b]enefits include improved reliability and power quality, peak shaving options, security, and efficiency gains through the avoidance of line losses."<sup>3</sup> The 2009 IEPR echoes this support:

*CHP, also referred to as cogeneration, is the most efficient and cost-effective form of distributed generation, providing benefits to California citizens in the form of reduced energy costs, more efficient fuel use, fewer environmental impacts, improved reliability and power quality, locations near load centers, and support of utility transmission and distributionsystems.*<sup>4</sup>

While these CHP benefits have been important historically, they have taken on greater importance with the enactment of AB 32. CARB's AB 32 Scoping Plan sets a target of GHG emissions reductions through CHP of up to 6.7 MMT.<sup>5</sup> CHP is an important measure in achieving the state's ambitious GHG goals.

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<sup>2</sup> See, e.g., Cal. Pub. Util. Code §372(a); D.10-12-035 at Finding of Fact 3, page 60.

<sup>3</sup> 2003 IEPR at 15.

<sup>4</sup> 2009 IEPR at 96; see 2003 IEPR at 15-24.

<sup>5</sup> CARB Scoping Plan at 44.

## **II. THE CALIFORNIA QF/CHP PROGRAM WILL PROMOTE INVESTMENT, IMPROVE EFFICIENCY AND FLEXIBILITY, AND PROVIDE VALUABLE METRICS.**

The Energy Producers and Users Coalition and the Cogeneration Association of California are parties to a momentous settlement agreement with California's investor-owned utilities (IOUs), among other parties.<sup>6</sup> The settlement, approved by CPUC D.10-12-035, creates the California QF/CHP Program, which includes a series of pro forma contracts for different generator types and establishes procurement targets for each IOU in two distinct periods. The initial program period, estimated to end in July 2015, sets a 3,000 MW procurement target; most, if not all, of this target will be met through contracts with existing CHP resources.<sup>7</sup>

The second program period, which will end in December 2020, sets a procurement target based on CARB's recommended emissions reduction value for CHP generators.<sup>8</sup> This value, defined as the GHG Emissions Reductions Target,<sup>9</sup> is currently 4.8 MMT.<sup>10</sup> While the methodology to translate the GHG Emissions Reductions Target into a MW procurement target has not yet been developed, a reasonable methodology could yield CHP procurement rates on pace to reach 6,500 MW by 2030. Thus, the program not only establishes pro

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<sup>6</sup> The CPUC approved the settlement in D.10-12-035 and the settlement's term sheet can be found here: <http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/124875.PDF> (Settlement Term Sheet). The settlement includes California's investor-owned utilities, community choice aggregators and electric service providers as parties.

<sup>7</sup> Settlement Term Sheet §§ 2.2 and 5.1.2.

<sup>8</sup> *Id.* at §§2.3.2.3 and 6.

<sup>9</sup> The GHG Emissions Reduction Targets are based on actual retail sales data that includes all current bundled service customers. D.10-12-035 at Finding of Fact 28, page 63.

<sup>10</sup> Settlement Term Sheet §6.2.2.3. It should also be noted that Settlement Term Sheet §5.1.4.8 states that "*The MWs required in the Second Program Period may be limited or expanded, as determined by the CPUC in the [Long-Term Procurement Plan] process, but shall be no less than [3,000 MW].*"

forma contracts and procurement targets designed to spur investment in CHP, it also stands as a measure of California's progress towards its emissions reduction goals.

Importantly, the IOU-endorsed program also establishes strict efficiency and emissions criteria.<sup>11</sup> These criteria were crafted to ensure that CHP facilities will result in fewer emissions than the alternative: a facility that installs a steam boiler and uses electricity from the grid.

The CPUC concludes that the program:

*has numerous public interest benefits that include resolution of disputes, a QF/CHP Program that is aligned with Commission-approved procurement processes, continued operation of existing CHP facilities and the development of new CHP facilities, a framework for achieving CARB's current CHP goals for the reduction of GHG emissions, encouraging the retirement or repowering of inefficient CHP facilities, competitively determined CHP PPA energy prices, a transparent procurement process, and equitable allocation of costs associated with the QF/CHP program to all Commission-jurisdictional LSEs.*<sup>12</sup>

### **III. DEPARTING LOAD CHARGES STILL STAND AS A TALL BARRIER TO INVESTMENT IN CHP**

When load leaves the utility system to be served by CHP, it incurs substantial departing load charges. The 2007 IEPR states that the CPUC and CEC should work to “*eliminate all non-bypassable charges for distributed generation and combined heat and power, regardless of size or interconnection voltage...*”<sup>13</sup> However, California has yet to eliminate these investment-choking fees. Today, the PG&E departing load charge for load served by CHP systems over 5 MW is \$16.96/MWh, while the SCE departing load charge is \$13.37/MWh.

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<sup>11</sup> Settlement Term Sheet §10.2.

<sup>12</sup> D.10-12-035 at Finding of Fact 32, page 64.

<sup>13</sup> 2007 IEPR at 163.

These charges act as penalties on private investment in CHP, raising the economic bar for any facility contemplating the installation of cogeneration facilities. The CGDL policy must be amended to eliminate all nonbypassable charges if the state is to achieve the goals of the QF/CHP Program and Governor Brown's 6,500 MW target.

#### **IV. CONCLUSION**

The standards embedded in the California QF/CHP Program will spur investment, improve California's current CHP fleet, and provide valuable metrics. Coupled with the elimination of CGDL nonbypassable charges, the program demonstrates that Governor Brown's 6,500 MW target is both appropriate and attainable.

July 20, 2011



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Respectfully submitted,



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